

Message Text

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ACTION EB-08

INFO OCT-01 ARA-11 ISO-00 STRE-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
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TO SECSTATE WASHDC 4036
INFO AMEMBASSY BRASILIA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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PASS STR ELECTRONICALLY

E.O. 11652: N/A
TAGS: ETRD, GATT, BR
SUBJECT: GATT ARTICLE XXVIII NEGOTIATIONS -- BRAZIL

REF: GENEVA 13729

1. SUMMARY: USDEL HELD FURTHER DISCUSSIONS WITH BOTA-
FOGO SUBSEQUENT TO FORMAL MEETING REFTEL IN ORDER TO
GAIN BETTER UNDERSTANDING OF BRAZILIAN LATEST OFFER
REFTEL. INFORMAL DISCUSSIONS AWAY FROM WATCHFUL EYES
OF 15-MAN BRAZILIAN DELEGATION REVEALED MORE FULLY
BRAZILIAN RATIONALE IN ARTICLE XXVIII NEGOTIATIONS.
END SUMMARY.

2. IN THREE-HOUR MEETING SEPT. 13, BOTAFOGO SAID THAT
DRAWN OUT ARTICLE XXVIII NEGDTIATION HAS BEEN AN EDUCA-
TIONAL EXPERIENCE FOR BRAZILIAN OFFICIALS. HE RECALLED
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THAT ORIGINAL BRAZILIAN POSITION IN OCTOBER 1977 (SEE
77 GENEVA 9401) WAS THAT BRAZIL OWED NOTHING IN ARTICLE
XXVIII NEGOTIATIONS SINCE VALUE OF CONCESSIONS OBTAINED
BY BRAZIL IN TRADE NEGOTIATIONS SINCE THE WAR HAD
DETERIORATED OVER THE YEARS. BOTAFOGO EMPHASIZED THAT
THIS POSITION WAS NOT A NEGOTIATING TACTIC BUT REPRE-
SENTED THE ACTUAL PERCEPTION OF BRAZILIAN OFFICIALS,

PARTICULARLY THOSE IN THE FINANCE MINISTRY, AT THAT TIME. THIS ATTITUDE WAS STRENGTHENED BY THE INABILITY OF BRAZILIAN OFFICIALS TO UNDERSTAND WHY BRAZIL SHOULD PAY COMPENSATION FOR WITHDRAWALS WHICH WERE NOT AFFECTING TRADE SINCE TARIFF RATES HAD NOT BEEN INCREASED ON MOST ITEMS WITHDRAWN AND A LARGE SHARE OF SUCH IMPORTS ENTERED FREE UNDER THE BRAZILIAN SYSTEM OF EXEMPTIONS. IN MANY CASES THE WITHDRAWALS HAD BEEN MADE AS A PRECAUTION AGAINST POSSIBLE FUTURE PRODUCTION IN GIVEN SECTORS.

3. BOTAFOGO EXPLAINED THAT PERCAUTIONARY WITHDRAWALS HAD EVOLVED BECAUSE OF GOB'S TENDENCY TO APPROACH MATTER FROM A MACRO ECONOMIC VIEWPOINT. PLANNING AND FINANCE OFFICIALS WOULD DECIDE THAT AN INDUSTRY SUCH AS THE AIRCRAFT OR CHEMICAL INDUSTRY WAS TO BE ENCOURAGED IN ITS DEVELOPMENT. IN ORDER TO DO SO, GATT BINDINGS ON THE ENTIRE SECTOR WERE REMOVED, EVEN WHERE UNNECESSARY ON SPECIFIC PRODUCTS, IN ORDER TO PROTECT PLANNED OR POTENTIAL FUTURE PRODUCTION, EVEN IF SUCH PRODUCTION WAS NOT LIKELY FOR SEVERAL YEARS. IN BOTAFOGO'S VIEW MANY OF THESE WITHDRAWALS WERE UNNECESSARY AND FORCED BRAZIL, UNDER GATT RULES, TO PAY COMPENSATION FOR WITHDRAWAL ON ITEMS WHERE TARIFFS MAY NEVER BE RAISED. SINCE HIS ENTRY INTO THE NEGOTIATIONS IN APRIL OF 1978, HE AND OTHERS HAD TRIED TO CONVINCE HIS COLLEAGUES THAT TARIFF BINDINGS SHOULD BE WITHDRAWN ONLY AS NECESSARY AND THAT EXISTING GATT PROCEDURES ALLOW BRAZIL TO DO LIMITED OFFICIAL USE

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THIS. HE BELIEVES THAT HE HAS SUCCEEDED IN CONVINCING KEY BUREAUCRATS AND, AS A CONSEQUENCE, BRAZIL WILL NOTIFY GATT AT THE NEXT OPEN SEASON IN 1979 UNDER ARTICLE XXVIII:5 OF ITS INTENT TO MODIFY TARIFFS DURING THE OPEN SEASON. IN THIS WAY, BRAZIL HOPES TO AVOID LENGTHY NEGOTIATIONS ON ARTICLE XXVIII AND TO OFFER COMPENSATION ONLY FOR ITEMS WHERE THERE IS A GENUINE NEED FOR WITHDRAWAL. IN ADDITION, BRAZIL WILL CONSIDER THE USE OF ARTICLE XVIII PROCEDURES (OTHER THAN BOP) WHERE APPROPRIATE, PARTICULARLY IF THEY ARE IMPROVED AS A RESULT OF NEGOTIATIONS IN THE MTN.

4. BOTAFOGO EXPLAINED THAT HIS PERCEPTION THAT WITHDRAWALS WERE EXCESSIVE HAD LED HIM TO INITIATE A TWO-PRONGED APPROACH IN APRIL OF THIS YEAR. FIRST, HE URGED A REEXAMINATION OF THE GOB WITHDRAWAL LIST IN ORDER TO SCALE IT DOWN, AND, SECOND, HE ARGUED THAT GOB NEEDED TO MAKE COMPENSATORY OFFERS TO MEET ITS GATT OBLIGATIONS DESPITE BUREAUCRATIC RESISTANCE TO DO SO. HE SAID THAT HIS ARGUMENTS PLUS DISCUSSIONS OF GOB OFFICIALS WITH AMBASSADOR WOLFF CONVINCED GOB OF ITS RESPONSIBILITY TO MAKE COMPENSATORY OFFERS. QUESTION OF SCALING DOWN WITH-

DRAWAL LIST HAS PROVED MORE DIFFICULT SINCE IT MET
OPPOSITION OF INDUSTRY PRESSURE GROUPS AND REPRESENTED
A REVERSAL OF PREVIOUS GOB DECISIONS. BOTAFOGO SHOWED
USDEL COPIES OF INTERNAL MEMORANDUM BETWEEN AIR
MINISTRY AND FOREIGN MINISTRY INDICATING THAT QUESTION
OF RESTORATION OF JET AIRCRAFT TARIFF HAD BEEN UNDER
DISCUSSION SINCE APRIL WITH FINAL DECISION HAVING BEEN
MADE ON SEPT. 5. BOTAFOGO SAID THAT HE FEARED THAT U.S.
WOULD SEE BRAZILIAN REESTABLISHMENT OF BINDING ON JET
AIRCRAFT AS A CUTE NEGOTIATING PLOY BY THE BRAZILIANS
WHEN IN FACT IT REPRESENTED THE CULMINATION OF A LONG
PROCESS OF INTERNAL HAGGLING WITHIN THE GOB. BOTAFOGO
ALSO HAD ARGUED THAT THE BINDING ON AMMONIUM PHOSPHATE

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(BTN 31050101), ACCOUNTING FOR \$48 MILLION OF U.S.
IMPORTS (72-74), SHOULD BE RESTORED SINCE THE WITHDRAWAL
WAS UNNECESSARY AS BRAZIL HAD A CONTINUED NEED FOR
PHOSPHATE IMPORTS. ACCORDING TO HIM, THIS WITHDRAWAL
WAS ANOTHER EXAMPLE OF MACRO ECONOMIC PLANNERS PREPARING
FOR A FUTURE PRODUCTION WHICH MAY NOT TAKE PLACE FOR
SEVERAL YEARS. HE SAID THAT HE HAD NOT BEEN SUCCESSFUL
THUS FAR BECAUSE OF THE OPPOSITION OF CHEMICAL INTERESTS.
HE SAID THAT THE BRAZILIAN OFFERS OF CEILING BINDINGS
ON ITEMS PREVIOUSLY WITHDRAWN ALSO RESULTED FROM THIS

PROCESS OF REEXAMINATION OF BRAZIL'S WITHDRAWAL LIST.

5. BOTAFOGO ALSO NOTED THAT HE AND OTHER GOB OFFICIALS HAVE RECOGNIZED THAT TRADE VALUE OF WITHDRAWALS WERE CONCENTRATED IN A FEW LARGE ITEMS, AND, FOR THAT REASON, IT HAS BEEN DIFFICULT TO GRANT COMPENSATORY CONCESSIONS ON A WIDE RANGE OF TARIFF ITEMS. SEVERAL MEMBERS OF HIS DELEGATION WERE CONSIDERABLY UPSET AT U.S. SUBMISSION LIMITED OFFICIAL USE

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OF LONG SHOPPING LIST AT JULY MEETING, A LIST WHICH CONTAINED NUMEROUS ITEMS WITH SMALL TRADE VALUE.

6. ON THE QUESTION OF LICENSING, BOTAFOGO CONFIRMED THAT DRAFT HE HAS CIRCULATED FOR GOB CLEARANCE WILL STATE THAT LICENSES WILL BE GRANTED AUTOMATICALLY ON CONCESSIONS GRANTED IN ARTICLE XXVIII NEGOTIATIONS. WITH RESPECT TO SURCHARGES, HIS MAIN PROBLEM IS THE CENTRAL BANK. THE BANK POINTS TO AN EXTERNAL DEBT OF \$40 BILLION, THE SERVICING OF WHICH RUNS CLOSE TO 60 PERCENT OF EXPORT EARNINGS, AND REFUSES TO ALLOW SURCHARGES TO BE LIFTED ON ANY ITEMS WHICH NOW HAVE THEM. THE BEST HE EXPECTS TO OBTAIN IS A NOTE STATING THAT GOB DOES NOT INTEND TO PLACE SURCHARGES ON THOSE ITEMS NOT NOW SUBJECT TO THEM OR TO INCREASE THE LEVEL ON THOSE ALREADY SUBJECT TO SURCHARGES (I.E., A STANDSTILL). HE IS NOT SURE THAT HE CAN OBTAIN THIS, AND HE MAY ONLY BE ABLE TO GET A NOTE REPEATING GOB POLICY TO PHASE OUT SURCHARGES AS THE BOP SITUATION IMPROVES. HE AND OTHER GOB OFFICIALS REALIZE THAT ANY NOTE CONTAINING AN UNDERTAKING MORE THAN A REPETITION OF WILLINGNESS TO PHASE OUT SURCHARGES REPRESENTS A RESTRAINT ON BRAZILIAN RIGHTS UNDER ARTICLE XVIII OF THE GA.

7. BOTAFOGO CONCLUDED BY SAYING THAT GOB DESIRES TO CONCLUDE THE ARTICLE XXVIII NEGOTIATIONS WITH THE U.S. AS SOON AS POSSIBLE BUT THAT HE HAS NOTHING LEFT TO OFFER. RESPONSIBLE GOB OFFICIALS BELIEVE THAT THEY HAVE COME SOME DISTANCE TO MEET U.S. DEMANDS AND HAVE OFFERED MORE THAN ADEQUATE COMPENSATION FOR WHAT THEY BELIEVE IS INSIGNIFICANT DAMAGE IN TRADE TERMS EVEN THOUGH THE U.S. CAN MAKE GATT LEGAL CLAIM. HE HOPED WE COULD CONCLUDE NEGOTIATIONS SATISFACTORILY ON BASIS OF OFFERS NOW ON THE TABLE.

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8. COMMENT: WE HAVE REPORTED THIS DISCUSSION IN DETAIL

BECAUSE IT HELPS EXPLAIN GOB'S PERCEPTION OF CURRENT
ARTICLE XXVIII NEGOTIATIONS. IF IT IS AN ACCURATE
DESCRIPTION OF THE EVOLUTION OF BRAZILIAN THOUGHT AND,
GIVEN THE RECORD OF THESE NEGOTIATIONS, WE HAVE NO
REASON TO DOUBT THAT IT IS NOT, IT REINFORCES OUR
ASSESSMENT REFTEL THAT WE HAVE OBTAINED ABOUT AS MUCH
AS WE CAN FROM THE BRAZILIANS IN THIS NEGOTIATION.
TO PUSH GOB FURTHER WITH LONG LISTS OF REQUESTS, MANY
ITEMS OF WHICH SHOW NEGLIGIBLE TRADE AS WE DID AT
JULY 14 SESSION, IS LIKELY TO UNRAVEL THE NOT
INSIGNIFICANT CONCESSIONS THAT WE HAVE ALREADY OBTAINED
FROM BRAZIL. END COMMENT. VANDEN HEUVEL

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